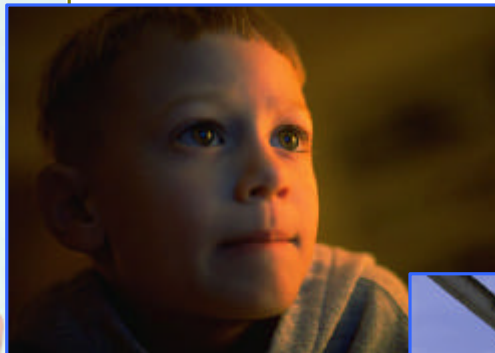




Internal Audit Report

**Grant Funded Organizations
Federal Audit Compliance Review**

April 2003



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Maricopa County

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April 18, 2003

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have concluded our reviews of Grant Funded Organizations Federal Audit Compliance for fiscal year 2000-01 and calendar year 2001. As required by federal guidelines, we reviewed 36 independent audit reports of community based organizations that received \$12.1 million in County distributed federal grants. This review was performed in accordance with the Board of Supervisors' approved annual audit plan

Twelve of the audit reports contain 31 findings related to County pass-through dollars. Only five of the 31 findings are material and none directly affect the County or specific programs funded by the County.

The highlights of this report include:

- Background information on the federal Single Audit Act
- Internal Audit's role in the Single Audit reporting process
- Single Audit report data and a listing of the County's FY 2000-01 subrecipients
- A summary of audit issues noted in the audit reports

If you have any questions please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

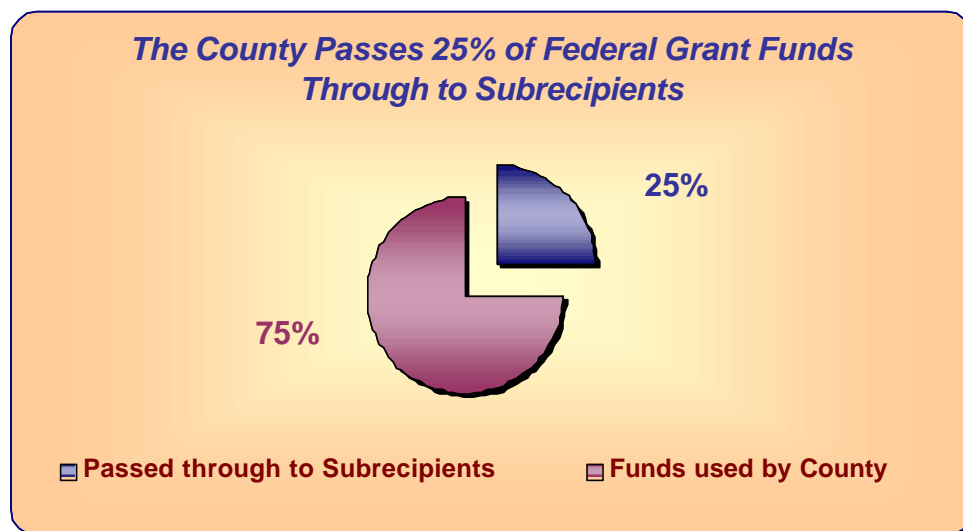
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Introduction

Background

In 1984, the United States Congress passed the Single Audit Act to consolidate a previously fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget issued Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* to implement the Single Audit Act. Recipients who annually receive \$300,000 or more of federal assistance are now required to undergo a comprehensive financial and compliance audit each year.



OMB Circular A-133 defines a subrecipient as “an organization that receives federal financial assistance to carry out a program” from a primary recipient or other subrecipient. The County received \$82.8 million of federal grant funds in FY 2000-01. The County directed \$20.6 million of these funds to subrecipient cities, charitable organizations, and service foundations within Maricopa County. The Internal Audit Department is charged with ensuring that each County subrecipient that exceeds the \$300,000 threshold undergo a Single Audit review.

Pass-Through Process

A complete listing of the County’s FY 2000-01 and calendar year 2001 subrecipients, required to undergo Single Audits, is shown on page 5. The pass-through process is illustrated below:



Federal Government (Federal funds grantor)



Maricopa County (Recipient)



American Red Cross (Subrecipient)

Single Audit Report

Requirements

Subrecipients who exceed the \$300,000 “grant funds expended” threshold must engage an independent auditor, either the State Auditor General or an independent Certified Public Accountant (CPA), each year. The independent auditor performs uniform audit procedures established in 1996 by the Single Audit Amendment and produces a Single Audit Report, which includes:

- Independent Auditor's Report (cover letter)
- Financial Statements
- Schedule of Expenditures of Federal Awards
- Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings

Auditor General Findings and Internal Audit Department Role

The Arizona Auditor General's June 30, 1988 Report on Supplemental Data, Internal Controls, and Compliance for Single Audit, found Maricopa County to be in noncompliance with the Single Audit Act. The County did not have countywide procedures to ensure that subrecipients were audited. The Auditor General directed the County to ensure that subrecipients undergo audits, and to follow up on the reported audit findings to verify corrective action was taken.

In 1989, the Board of Supervisors authorized the Internal Audit Department to maintain a countywide subrecipient audit management system. Accordingly, each year the Internal Audit Department identifies County subrecipients, reviews all Single Audit reports, and follows up on all findings affecting the County. The Internal Audit Department ensures:

- Subrecipients engage an independent auditor and have a Single Audit conducted
- Single Audits are performed and reported timely, maintaining the flow of grant funds to the County
- Findings affecting the County are communicated to appropriate departments

However, effective July 1, 2002, the Community Development Department, with Board approval, assumed responsibility for grant subrecipient monitoring for the Community Development Block Grant. Also, the Sheriff's Office has obtained Board approval to monitor their subrecipients and has adopted that responsibility.

In addition to Single Audit reviews, the Internal Audit Department, in conjunction with the Department of Finance, has provided OMB A-133 Grant Training classes since April 1999. The training is available through the County's training department.

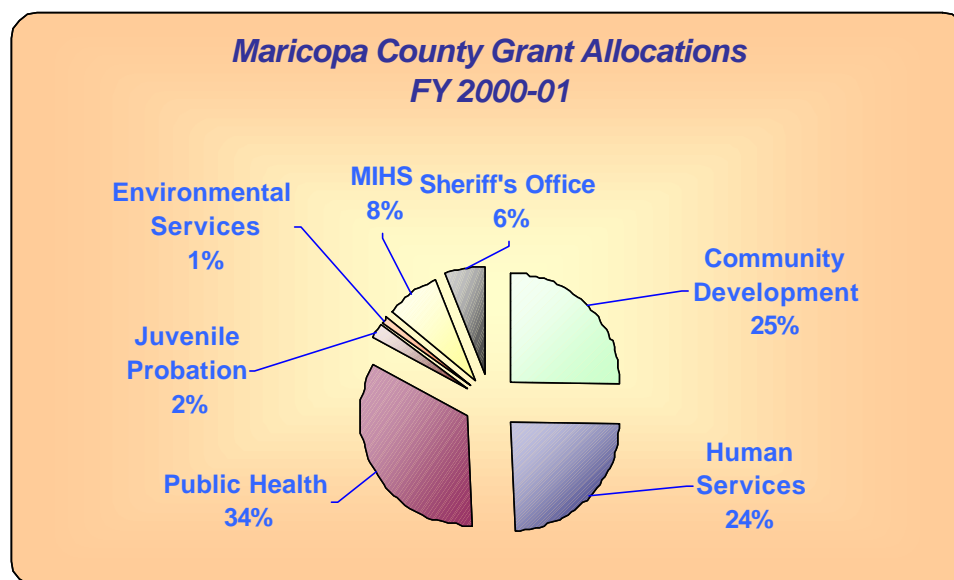
County Pass-Through Grantors

Seven Departments

Federal grant monies, provided to Maricopa County subrecipients in FY 2000-01 and calendar year 2001, passed through the following County departments:

- Community Development
- Human Services
- Public Health
- Environmental Services
- Juvenile Probation
- Maricopa Integrated Health System (MIHS)
- Sheriff's Office

The chart below illustrates the percentage of grant dollars passed through each department.



The Community Development Department is conducting their own review except for one prior year report Internal Audit already reviewed. The Sheriff's Office began reviewing their subrecipients after Internal Audit had already completed three of those subrecipient reviews. Consequently, Internal Audit completed 36 of 37 Single Audit report reviews; one subrecipient having not yet submitted their audit report. Our review of the Federal OMB Circular A-133 and discussion with the Auditor General's Office indicated that no penalties exist for late reports, but Internal Audit will follow up on the unsubmitted report. Appendix A lists all County subrecipient Single Audit Reports for FY 2000-01 and calendar year 2001 that we reviewed. The unsubmitted report's dollar value is listed as unknown.

Independent Auditors' Findings

Summary

The County passed through \$12.1 million in federal grant funds to 37 subrecipients, required to complete Single Audits, in FY 2000-01 and calendar year 2001. We reviewed 36 subrecipient Single Audit Reports and found that 12 contain a total of 31 findings (see Appendix B) related to County pass-through dollars. Only five of the findings are material and none directly affect the County or specific County-funded programs.

Finding Classifications

Single Audit findings are classified into the four categories listed below in order of increasing seriousness and risk to the entity being audited:

<i>Immaterial Instances of Noncompliance</i>	<i>Noncompliance</i>	<i>Reportable</i>	<i>Material</i>
Noncompliance that does not meet the Government Auditing Standards criteria for reporting in the Single Audit Report, and is reported in a separate management letter.	Noncompliance with certain provisions of laws, regulations, contracts, and grants, which could have a direct and material effect on the determination of general-purpose financial statement amounts.	Significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the organization's ability to record, process, summarize, and report financial data.	Condition that could lead to materially misstated amounts on the financial statements. Employees in the normal course of business may not detect these conditions in a timely manner.

The schedule on the following page identifies County subrecipients and departments, which passed funds to the subrecipients. The schedule on pages 6-7 details the 31 reported findings shown in the Single Audit reports issued by various CPAs. These CPAs determined each finding's category based on the effect on the subrecipient's financial statements.

Corrective Action Plans

The Single Audit Report findings and the corresponding subrecipient corrective action plans have been communicated to the appropriate County departments. The Internal Audit Department will follow up on the one overdue Single Audit report, ensure it is complete, and evaluate any findings reported.

Appendix A

Maricopa County Subrecipients: FY 2000-01, Calendar Year 2001

Subrecipients Requiring Single Audits (Although amounts shown may be less than \$300,000, each subrecipient received \$300,000 or more in total federal grant funds from all sources.)	Amount (per subrecipient report)	Community Develop.	Environ. Services	Human Services	Juvenile Probation	MIHS	Public Health	Sheriff's Office
Advocates for the Disabled	\$ 19,195			✓				
AIDS Project AZ	1,080,738						✓	
American Red Cross	411,352			✓				
Area Agency on Aging	1,004,308					✓	✓	
Arizona Call-A-Teen Youth Resources	210,358			✓				
(Phoenix) Body Positive	514,693					✓	✓	
Catholic Social Service	4,707,686			✓			✓	
City of Avondale	93,696			✓				
City of Chandler	53,498							✓
City of El Mirage	66,560			✓				
City of Glendale	101,855			✓	✓			
City of Mesa	60,356							✓
City of Phoenix	669,936				✓			
City of Surprise (FY 00)	380,000	✓						
City of Tolleson	59,661			✓				
Clinic Adelante (Nov 01)	15,324						✓	
Community Services of Arizona	140,507			✓				
Concilio Latino de Salud (Oct 01)	116,731					✓	✓	
East Valley Institute of Technology	179,535			✓				
Ebony House	123,070					✓		
Foundation for Senior Living	371,271			✓				
Maricopa County Community College	33,245			✓				
Mountain Park Health Center (Nov 01)	24,669						✓	
Native American Community Health (Sep 00)	14,986						✓	
Native American Community Health (Sep 01)	Unknown						✓	
New Life Center	28,669			✓				
Phoenix Shanti Group	169,292						✓	
Regional Public Transportation Authority	565,057		✓	✓				
Save the Family	34,218			✓				
Southwest Human Development	142,004			✓				
Tempe Community Action Agency	584,893			✓				
Town of Gila Bend	47,997			✓				
Town of Guadalupe	47,910			✓				
TOTAL:	\$12,073,270							

Note: Due to timing of expenditures and reimbursements, three subrecipients' reports identified no grant funds received from Maricopa County and are not included in this appendix.

Appendix B

Subrecipient Findings for FY 2000-01, Calendar Year 2001

DEPARTMENT / SUBRECIPIENT	FINDING TYPE	DESCRIPTION
Human Services		
Advocates for the Disabled	Noncompliance	Untimely submission of invoices.
American Red Cross	Immaterial Noncompliance	Bank accounts exceeded FDIC limit of \$100,000.
	Immaterial Noncompliance	Blank check requests and hand written checks were used.
Arizona Call-A-Teen Youth Resources	Material	Did not consistently account for invoices submitted and did not properly record cash receipts.
	Material	Assets and liabilities related to construction costs were not recorded in the general ledger.
East Valley Institute of Technology	Reportable	No reconciliation of revenues, expenditures, and cash balances with County Superintendent records.
Maricopa County Community College District	Reportable	Inadequate security over external access to IT resources.
	Reportable	Disaster recovery plan has not been updated.
	Reportable	Lack of controls ensuring required matching funds were being met and reported.
Tempe Community Action Agency	Immaterial Noncompliance	Lack of segregation of duties over cash disbursements, cash receipts, bank reconciliations, preparation and maintenance of general ledger.
	Immaterial Noncompliance	Same individual that performs bank reconciliations, prepares accounts payable, payroll, and general ledger.
	Immaterial Noncompliance	Current general ledger accounting system lacks accounts receivable aging capabilities to produce reports.
	Immaterial Noncompliance	Fixed assets were not capitalized.
	Immaterial Noncompliance	Did not review compliance requirements annually for each federally funded program.
Town of Guadalupe	Material	Physical asset listing did not include land, buildings, public ways improvements and construction in process.
	Material	Late filing of Annual Expenditure Limitation and financial statements.
	Immaterial Noncompliance	Filing transit reports untimely.
	Immaterial Noncompliance	Weakness in internal control over disbursements.
	Immaterial Noncompliance	A component unit was not tracked in the accounting system and violated the articles of incorporation.

DEPARTMENT / SUBRECIPIENT	FINDING TYPE	DESCRIPTION
Juvenile Probation		
City of Phoenix	Noncompliance	Files did not have completed rent reasonableness forms.
	Noncompliance	Grant reports were not timely.
	Noncompliance	Some grant expenditures were not allowable.
	Noncompliance	Subrecipients did not submit reports of audits.
Maricopa Integrated Health Systems (MIHS)		
(Phoenix) Body Positive	Reportable	Segregation of duties - one individual prepares the deposit slip, deposits funds, and records the deposit in the general ledger.
	Reportable	The same individual also sets up new employees, accumulates and communicates hours worked to payroll agency, distributes payroll checks, and records payroll expenses to the general ledger
	Reportable	Financial books were not available for audit until one year after year-end.
	Reportable	Employees in position of trust are not required to take vacations.
	Reportable	Employees handling cash are not bonded.
Public Health		
Clinic Adelante	Reportable	Procedures for determining and documenting patient eligibility for the Sliding Fee Scale are not applied consistently.
Native American Community Health Center	Material	Inadequate controls for processing financial transactions.
(Phoenix) Body Positive	Reportable	Same as listed above under MIHS.
Phoenix Shanti Group	Reportable	Reimbursements were made from cash receipts, not accounts payable. Petty cash was not reconciled monthly and did not have an established amount.